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## **Sustainable Funding For Natural Resources Study Committee**

### **Report to the Legislature**

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The Legislative Council created the Sustainable Funding for Natural Resources Study Committee in 2007 and charged it to study how best to provide for sustainable funding for natural resource needs. The committee was also to cooperate with members of the Sustainable Natural Resource Funding Advisory Committee established in 2006, and other interested persons in performing the study.

Below is the final report from the Study Committee.

1. Create a Land Preservation Initiative – Adopt HF 902/SF 587 – Charitable Conservation Contribution Income Tax Credit.

Lawmakers were told that Iowa's outdoor natural jewels are being auctioned to the highest bidder. Housing and land clearing is destroying priceless natural areas faster than conservation programs can protect them. High land prices for recreational land are inflating so fast that conservation budgets cannot possibly keep up. Iowa landowners should get a tax benefit for setting aside land for preservation and conservation, to prevent soil erosion and protect Iowa streams, lakes, and wildlife. State tax credits can be leveraged with Federal tax deductions for charitable contribution to get conservation lands protected for future generations.

HF 902 was amended and adopted by the House Ways and Means Committee, by a vote of 23-0, on January 23, 2008. SF 587 passed the Senate on April 23, 2007, by a vote of 49-0. The bills create a Charitable Conservation Contribution income tax credit equal to 50% of the fair market value of a qualified real property conveyed as an unconditional charitable donation in perpetuity by the taxpayer to a qualified organization exclusively for conservation purposes. The maximum credit is \$100,000, and unused credits may be carried forward for 20 years. An individual may take their pro rata share of a credit allowed a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual. "Conservation purpose", "qualified organization", and "qualified real property interest" are the same as defined for a qualified conservation contribution under section 170(h) of the Internal Revenue Code, except a conveyance for open space to fulfill density requirements for subdivision or building permits are not eligible. The estimated costs are \$300,000 the first fiscal year, eventually increasing to \$1.1 million per year.

2. Agree with the \$150 million “needs assessment” identified by the Sustainable Natural Resource Funding Advisory Committee.

This needs recommendation came unanimously from the 18-member sustainable funding advisory committee, which the Legislature created in 2006. After researching and reviewing current streams of funding and budgets, the advisory committee believes the additional \$150 million per year

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(above our current funding for ag and natural resources programs) is needed to support Iowa's natural resources – for parks and trails; soil and water conservation; and fish, wildlife, and other natural areas. And, they wanted lawmakers to know they believe this is a “conservative” estimate.

The advisory committee identified where the additional money would best be spent, to meet our current needs.

- **REAP.** \$20 million would fully fund the authorized level of Iowa's Resource Enhancement and Protection (REAP) program. This program provides moneys for projects that enhance our natural, cultural, and recreational resources. The Legislature provided \$15.5 million for the current fiscal year.
- **Local Conservation Partnership Program.** \$20 million for infrastructure, nature interpretation and outreach, and conservation management techniques at the local level. Funds would be distributed via a grant application process to county conservation boards (\$12 million), nongovernmental organizations (\$5 million), and cities (\$3 million).
- **Watershed Protection.** \$20 million to increase emphasis on the watershed approach to solving environmental problems. Watershed protection takes many forms, such as wetland restoration, grassland restoration, and runoff filtration.
- **Lakes Restoration.** \$10 million for lake restoration needs. Iowans value water quality and desire safe, healthy lakes that provide a full complement of aesthetic, ecological, and recreational benefits. Local involvement and watershed protection are essential components of all successful lake restoration projects.
- **Trails.** \$15 million for maintenance of existing trails and the addition of new trails, marketing, and trail linkages. This would include water trails. Iowa's regional, state, and nationally significant trails are locally owned and managed by county conservation boards, the state, cities, and non-profit organizations. These moneys will be used to match federal recreational trails grants.
- **Iowa Department of Natural Resources.** \$35 million to be added to DNR's budget for needs in our state parks, state preserves, the wildlife diversity program, public access, private landowner programs and incentives, and natural resources outreach. DNR is the state agency charged with conserving and enhancing Iowa's natural resources.
- **Iowa Department of Agriculture and Land Stewardship.** \$30 million to meet the demands of the department's existing programs on soil conservation and watershed protection projects. The money would also provide additional technical assistance to soil and water conservation districts, develop a stream bank and buffer stabilization project, initiate a state-funded CRP-type program (federal Conservation Reserve Program) to keep lands in hay and grass, and start a tillage management incentives program to assure adequate crop residue levels in areas impacted by demand for cellulosic ethanol production. Funds will also be used to support environmental stewardship with regard to agricultural and livestock issues.

### 3. Reauthorize the Sustainable Natural Resource Funding Advisory Committee.

The Interim Committee would like the Legislature to reauthorize the Sustainable Natural Resource Funding Advisory Committee. The Legislature established this advisory committee during the 2006 Legislative session in House File 2797. The purpose of the advisory committee is to study how to provide a sustainable source or sources of funding for natural resources needs in Iowa. The 18-

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member sustainable funding advisory committee is made up of representatives of the following organizations:

- Secretary of Agriculture
- Iowa Natural Heritage Foundation
- Ducks Unlimited
- Pheasants Forever
- Iowa Association of County Conservation Boards
- Iowa Farm Bureau
- Iowa Farmers Union
- The Nature Conservancy
- The Iowa Environmental Council
- Iowa Renewable Fuels Association
- Iowa Chapter of Sierra Club
- Izaak Walton League of Iowa
- State Conservation Districts

4. Create a Water Quality and Outdoor Recreation Trust Fund and make it constitutionally protected.

This trust fund should be created within the Iowa Treasury. The Legislature should also start the Constitutional Amendment process to have this fund constitutionally protected so that moneys in the fund cannot be used for any other purpose. The trust fund would be administered by the Department of Natural Resources and the Department of Agriculture and Land Stewardship; 1% of the funds can be used for administration. It is the goal that \$150 million in sustainable funding would be deposited into this trust fund each year.

The moneys would be distributed based on the following percentage formula, which is based on the dollar appropriations needs assessment outlined above.

- 13% for REAP
- 13% for the Local Conservation Partnership Program.
- 13% for Watershed Protection.
- 7% for Lakes Restoration.
- 10% for Trails.
- 23% for Iowa Department of Natural Resources soil, water, and natural resources programs.
- 20% for Iowa Department of Agriculture and Land Stewardship soil, water, and natural resources programs.

4. Provide several funding options for the Legislature to address.

The 18-member Sustainable Natural Resource Funding Advisory Committee identified several funding options. They evaluated a broad range of sustainable funding mechanisms with a brainstormed list of over 45 mechanisms. Iowan's "willingness to pay" was gauged by completing a statewide survey and additional public input. The list was narrowed down to several mechanisms to attain the annual \$150 million per year goal; funding mechanisms may need to be combined.

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- a. **Gaming/Gambling Revenues.** Transfer \$150 million from the Rebuild Iowa Infrastructure Fund to the new Water Quality and Outdoor Recreation Trust Fund. This option would fully meet the major needs identified by the advisory committee.
- b. **Present a proposal to the people of Iowa to approve a constitutionally protected fractional sales tax increase.**  $\frac{3}{8}$ <sup>th</sup> of 1¢ would fully fund the \$150 million. This option offers the ability to fully meet the major needs identified by the advisory committee. A proposed constitutional amendment would be able to raise the full \$150 million in needs the advisory committee has identified. It would be a source of funding that would be dedicated and sustainable over the long run, and would be protected from yearly competition with other state funding needs.

A  $\frac{3}{8}$ <sup>th</sup> of 1¢ increase in the state sales tax has been estimated by the Legislative Services Agency to raise approximately \$146 million. This would allow the state to fund all of the needs identified by the advisory committee. A  $\frac{1}{2}$  of 1¢ increase would raise nearly \$200 million, which would allow the state to pay for projects that are currently funded by the Environment First Fund (EFF) to be funded by the newly dedicated sales tax. Since the EFF is currently a portion of the Rebuild Iowa's Infrastructure Fund (RIIF), removing the EFF from the RIIF budget would essentially increase the size of the RIIF budget by \$40 million.

To enact a constitutional amendment, the Legislature would need to pass legislation in two consecutive general assemblies before it would be submitted to the public for a vote. Iowans would then have the ability to vote on an issue that would represent a long-term fundamental commitment to the state's future.

This would be a major shift from how the state is funding natural resource enhancement and protection. Funding is now largely up to the discretion of elected officials. Making the decision to permanently set aside a large portion of the state's revenues is something Iowans must decide.

- c. **Issue bonds financed by interest off the State's reserve funds.** A major component of the recommendations presented by the advisory committee is the need for capital expenditures – projects that require one-time purchase of land or construction costs. Land prices are increasing rapidly and the cost of construction materials is rising quickly as well. Bonding offers the ability to meet these needs now, or to lock in the prices of these projects at prices that will be much below future costs, while paying for them over time. This is a means of making an initial investment sustainable and reliable over a long period of time.

Bonding would make more funds available immediately, taking advantage of current federal cost-share dollars for which there is presently inadequate state matching funds. There are also immediate needs for trails and park improvements, and for other delayed maintenance items that will be more expensive in the future.

The money to finance the bonds could be found by dedicating the interest that is earned on the State's reserve accounts. This money currently is deposited into the Rebuild Iowa Infrastruc-

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ture Fund (RIIF); it generates approximately \$25 to \$30 million per year. The interest earned on these accounts is rising as we continue to re-fill them after they were used to cover budget promises. If this money were used to finance projects out of the Water Quality and Outdoor Recreation Trust Fund, rather than be deposited into the RIIF fund, projects such as trails and other state park needs could be removed from the definition of “vertical infrastructure”, which would serve to free up the remaining dollars in the RIIF budget.

- d. **Transfer lottery profits to the Water Quality and Outdoor Recreation Trust Fund.** This would generate approximately \$50 to \$55 million (this money is currently deposited into the State general fund).
- e. **Dedicate the sales tax on drinking water (water utility tax).** This is estimated to generate \$18 million annually. People who get their drinking water from a public water supply pay sales tax on that water. The advisory committee noted that the water industry believes water should not be taxed. However, if the tax can be directed for water and watershed improvement and protection, they would support the continued collection of the sales tax.
- f. **Establish a bottled water sales tax or a bottled water fee.** Currently, it is estimated that 400 million bottles of non-sparkling water are sold in Iowa per year, with sales estimated at \$109 million. Bottled water sold in stores is considered a food product and is currently not subject to the sales tax (however, sweetened bottled water is taxable as a soft drink – Iowa Administrative Code rule 701-231.3(f)). Extending the state’s 5¢ sales tax to bottled water would generate approximately \$5.49 million, while establishing a 5¢ per container fee would bring in approximately \$20 million. This container fee would be similar to the container deposit on redeemable containers, but would not be used for bottle redemption. The advisory committee noted that establishing a 38¢ bottled water fee would generate the entire \$150 million per year.
- g. **Diminution Fee currently going to underground storage tanks.** The environmental protection charge (EPC) is currently assessed at the rate of 1¢ per gallon of petroleum products stored in non-exempt underground and aboveground storage tanks. This charge is collected by the Department of Revenue and is meant to collect approximately \$17 million annually to fund the Comprehensive Petroleum Underground Storage Tank Fund. The EPC has a future repeal date of June 30, 2016. That future repeal date is set to coincide with the expected conclusion of the responsibilities of the UST Board. Instead of repealing this provision, the repeal date could be eliminated and after the board’s responsibilities are completed, the charge could be used to fund other conservation and environmental programs through the Water Quality and Outdoor Recreation Trust Fund. More information on the EPC is available through the Department of Revenue’s web site at <http://www.state.ia.us/tax/educate/78544.html>.